

**Perceived benefits of loyalty programs:**  
**Scale development and implications for relational strategies**

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## **Abstract**

Positive outcomes of loyalty programs are clear for firms, yet little research examines customer perceptions. To address this gap, this article investigates various perceived benefits of loyalty programs using a multi-benefit framework based on utilitarian, hedonic, and relationship literature. Two quantitative studies, involving 658 French members of loyalty programs, provide a 16-item scale that measures five types of perceived benefits: monetary savings, exploration, entertainment, recognition, and social benefits. The five dimensions have different impacts on satisfaction with the program, loyalty to the program, and perceived relationship investment of the firm. This article offers a discussion of the theoretical and managerial implications of these findings for relationship marketing strategies.

**Keywords:** Loyalty programs; perceived benefits; scale development.

## **Perceived benefits of loyalty programs:**

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#### **1. Introduction**

A large variety of companies, including airlines, hotels, retailers, and car manufacturers, increasingly use loyalty programs to manage their customer bases. For example, frequent flyer miles represent one of the world's most popular currencies, with 100 million people collecting the 500 billion miles that 130 airlines distribute annually (Drèze and Nunes, 2004). The U.S. loyalty marketing industry, a \$6 billion market, contains more than 2,000 loyalty programs, and 90% of Americans participate in at least one loyalty program (Berman, 2006).

[PLEASE INDENT ALL PARAGRAPHS THE SAME AMOUNT AS THE FIRST PARAGRAPH]Because of their ubiquity in the marketplace, the effectiveness of loyalty programs attracts considerable attention from academics. However, empirical research tends to focus on the benefits of loyalty programs from a firm perspective (Bolton, Kannan, and Bramlett, 2000; Lewis, 2004), leaving open the issue of how members perceive loyalty programs and which advantages they may derive from their participation (Kivetz and Simonson, 2002, 2003; O'Malley and Prothero, 2004). So far, research suggests that customers value loyalty programs mainly because of the economic gains these programs provide (e.g., Peterson, 1995). However, the evolution of marketing practices makes this claim untenable; in addition to monetary savings, loyalty programs now offer priority check-in and preferred seats (e.g., American Airline AAdvantage frequent flyer program), events and meetings with other members (e.g., Saab drivers' club), and preferential treatment and exclusive invitations (e.g., Ralph Lauren VIP).

Perceived benefits may explain why customers take part in loyalty programs, in that these benefits motivate loyalty and strengthen the relationship with the firm (Bolton, Lemon, and Verhoef, 2004). Consequently, if customers perceive little or no benefit from participating in a program, marketing investments might be inefficient or even become lost (De Wulf, Odekerken-Schröder, and Iacobucci, 2001). This article therefore attempts to develop a scale that measures the main benefits customers perceive when they participate in loyalty programs. By developing such a scale, this article addresses an important research gap and helps contribute to a better understanding of customers' reactions to loyalty programs.

## **2. Conceptualization of perceived benefits of loyalty programs**

According to previous research pertaining to perceived benefits in general (e.g., Haley, 1968), the customer-perceived benefits of loyalty programs refer to the perceived value customers attach to their experience with the program (Holbrook, 1996; Keller, 1993)—that is, what the program can provide or do for members. This experience includes both exposure (e.g., the knowledge that after a certain number of purchases, the customer receives a coupon) and usage (e.g., redeeming the coupon). A review of previous research suggests that the benefits customer obtain from joining loyalty programs consist of utilitarian benefits (monetary savings and convenience), hedonic benefits (exploration and entertainment), and symbolic benefits (recognition and social benefits).

### ***2.1. Utilitarian benefits***

Utilitarian benefits, which are primarily instrumental, functional, and cognitive, provide consumer value by offering a means to some end. For example, people shop to accomplish the task of acquiring some object, among other reasons (Babin, Darden, and

Griffin, 1994). Utilitarian benefits relate to basic motivations such as safety needs and usually correspond to a product's tangible attributes. Just as they might assess shopping or service encounters, customers judge the outcome of belonging to marketing programs according to the utilitarian value, which depends on how well the program accomplishes the intended task.

In loyalty programs, utilitarian value derives in part from financial advantages (Bolton et al., 2004; Johnson, 1999). Peterson (1995) suggests that saving money provides the major motivation for joining frequent flyer programs and book clubs. Monetary savings develop from cash-back offers and coupons that participants accumulate while regularly buying the same brand or shopping with the same retailer. Convenience benefits lead to utilitarian value as well and encourage people to enroll in loyalty programs. Sheth and Parvatiyar (1995) claim that to minimize the difficulty of choosing among alternatives, consumers develop enduring relationships with firms. In turn, customers may appreciate loyalty programs because the programs help consumers automate their decision-making process and avoid complex evaluations of available alternatives (Berry, 1995; Bolton et al., 2000). Loyalty programs can also reduce consumer search and decision costs through value-added services such as exclusive reservations, easy payment desks, priority checks-in, and so forth. Therefore, consumers enjoy greater shopping convenience and can save time.

## *2.2. Hedonic benefits*

Hedonic value derives from non-instrumental, experiential, emotional, and personally gratifying benefits (Hirschman and Holbrook, 1982) and may be associated with shopping, the use of media, and increased behavioral loyalty (Arnold and Reynolds, 2003; Babin and Attaway 2000; Babin et al., 1994; Jones, Reynolds, and Arnold, 2006; McQuail, Blumler, and Brown, 1972). Hedonic benefits may be relevant for loyalty programs through two dimensions: exploration and entertainment.

Trying new or innovative products, satisfying curiosity about events and promotional offers, or seeking information to keep up with new trends represent examples of exploratory behaviors (Arnold and Reynolds, 2003; Baumgartner and Steenkamp, 1996) that consumer magazines or direct mail, for example, can fulfill. Programs also enable customers to enjoy unique experiences that they would not have undertaken otherwise, because many organizations offer pleasure-providing incentives, such as getting to drive a Jaguar for a day or attending an opera. In addition, because activities can be intrinsically appealing (Hirschman and Holbrook, 1982; Tauber, 1972), a loyalty program can provide joy and be an end in itself. Johnson (1999) argues that loyalty programs attract consumers because of the pleasure associated with collecting and redeeming points. In this scenario, customers act like players and experience a feeling of entertainment.

### *2.3. Symbolic benefits*

Symbolic benefits, the extrinsic advantages that products or services provide in relation to needs for personal expression, self-esteem, and social approval (Keller, 1993), result from intangible and often non-product-related attributes.

Because they build customer knowledge, loyalty programs offer an opportunity to differentiate and discriminate among customers who likely perceive customized offers as a sign of respect or distinctiveness (Gordon, McKeage, and Fox, 1998). Consumers consequently may experience recognition benefits (Csikszentmihalyi, 2000); they may feel like the firm and frontline personnel treat them better than they would treat nonmembers of the program (Beatty, Mayer, Coleman, Reynolds, and Lee, 1996; Gwinner, Gremler, and Bitner, 1998). Loyalty programs further focus on not merely the product but also the experience of ownership and consumption (McAlexander, Schouten, and Koenig, 2002).

Consequently, the programs enhance perceptions of social benefits (Libermann, 1999), such that members consider themselves part of an exclusive group of privileged customers, identify with that group, and share values associated with the brand (Muniz and O'Guin, 2001).

On the basis of this thorough review of literature pertaining to perceived benefits in general, Table 1 summarizes the nature and definition of the perceived benefits of loyalty programs.

Table 1 here.

### **3. Development of a scale to measure the perceived benefits of loyalty programs**

Consumers may perceive six distinct benefits associated with loyalty programs. This section describes the scale development process, in line with procedures advocated in previous literature (e.g., Churchill, 1979; Ping, 2004).

#### *3.1. Item generation*

A qualitative study among cardholders provides further insights into the benefits customers perceive when participating in loyalty programs. The sample consists of thirteen French customers (six men and seven women) who range in age (20 to 55 years) and work in a variety of occupations (e.g., trader, secretary, student). The respondents come from a network of acquaintances and are diverse in their use of loyalty programs. The interviews begin with questions about the type and number of loyalty programs in which respondents participate. Then, for each program, the respondents identify and discuss the advantages they perceive from their participation.

The literature review and the qualitative study suggested a pool of 35 items to measure the perceived benefits of loyalty programs. Four marketing faculty members and a senior

manager of a frequent flyer program evaluated these items for content and face validity and suggested the removal of some items they judged not clear, not representative of the domain, redundant, or open to misinterpretation. This procedure resulted in a pool of 26 items. Two surveys examine the dimensionality and relative importance of the six conceptually identified benefits.

### *3.2. Exploratory factor analysis*

The sample for the exploratory analysis consists of 367 French members of loyalty programs, 80% of whom range between 19 and 35 years of age, 54% of whom are women, and the majority of whom have some college education (72%). The self-administered questionnaire uses seven-point Likert scales to measure the benefits. In line with Gwinner et al.'s (1998) procedure, respondents first enumerate the loyalty programs in which they are enrolled, then choose one of them as the subject for the questionnaire. Respondents spontaneously cited programs from various retailing sectors: food (28%), beauty (17%), clothing (14%), and cultural goods (13%). Other industries account for less than 5% of the sample (e.g., airlines).

The exploratory factor analysis, using oblique rotation to address the relatively high correlations among the dimensions (ranging from .4 to .65), reveals six factors with eigen values greater than 1. However, items that represent the convenience dimension have very low communalities and correlate highly with both the monetary savings and recognition dimensions. An iterative process (Hair, Black, Babin, Anderson, and Tatham, 2006) leads to the removal of these items, as well as items with low factor loadings (three items,  $<.5$ ) or high cross-loadings (four items,  $>.3$ ). A further exploratory factor analysis with the remaining 16 items results in a five-structure solution: monetary savings, exploration, entertainment, recognition, and social benefits. This solution accounts for 69% of the total variance. The



items provide strong contributions to the factor they represent (ranging from .62 to .95) and good communalities (ranging from .60 to .84). Table 2 provides more details about the results of the exploratory factor analysis.

Table 2 here.

The study thus does not support the convenience dimension. The respondents generally rated the programs with which they were most familiar, which may partially explain this counterintuitive result. Respondents indicated that they knew the firm's products and offerings quite well and did not perceive them as particularly complex or challenging. This issue requires further investigation.

### 3.3. *Confirmatory factor analysis*

[remember to indent all paragraphs properly]The confirmatory analysis relies on a new sample of 291 respondents, recruited through a French online access panel research institute. Half of this sample are between 20 and 39 years of age, 38% are between 40 and 60 years, and 12% are older than 60 years; 52% are women. The respondents mainly chose loyalty programs in the food retailing sector (78%).

The estimation of the five-dimensional confirmatory factor model uses maximum likelihood estimation with Amos (5.0). The final model displays acceptable fit indices ( $\chi^2 = 229.24$  (94),  $p = .00$ ; GFI= .91; AGFI= .87). The CFI and NNFI of .98 and .96, respectively, meet the recommended levels for a model with good fit (Hair et al., 2006). The value of the RMSEA (.07) falls within the acceptable range of .05 to .08 (Hair et al., 2006; Jöreskog, 1993). The items' squared multiple correlations range from .59 to .93, and items highly

correlate with the latent dimensions, according to the correlations that range from .77 to .96 (Figure 1). The scale also displays good internal consistency, with coefficient alphas ranging from .89 to .97 and Jöreskog  $\rho$  varying between .89 and .97 (Table 3).

Figure 1 here.

### *3.4. Convergent and discriminant validity*

As Table 3 shows, all factor loadings are significant, and the average variance extracted (AVE) for each dimension exceeds .5. This result indicates that the explained variance is greater than the variance due to the error (Fornell and Larcker, 1981), in support of the convergent validity of the scale. Moreover, the AVE is higher than the squared correlations among the five dimensions, confirming discriminant validity. Although the nonmonetary benefits correlate highly with one another (correlations between latent variables range between .46 and .80), the evidence in support of discriminant validity supports the single order, five-structure solution.

Table 3 here.

### *3.5. Nomological validity*

To establish the nomological validity of the perceived benefits scale, this study relies on structural equation modeling and tests the relationships between the five dimensions of perceived benefits and two related constructs identified in the literature (satisfaction with and loyalty to the program). The nomological validity test also integrates the five benefits into an existing and empirically validated model, namely, the model of perceived relationship investment (PRI) proposed by De Wulf et al. (2001) (see the Appendix for construct measurements and reliability).

### *3.5.1 Impact of perceived benefits on loyalty to and satisfaction with the program*

According to Yi and Jeon (2003), the value derived from participating in a loyalty program should influence loyalty to the program positively. In line with Yi and Jeon's research, the results show that perceived benefits relate to loyalty behavior. Monetary benefits have the greatest significance for explaining loyalty to the program ( $\beta = .46, p = .00$ ), followed by exploration benefits ( $\beta = .18, p = .03$ ), entertainment benefits ( $\beta = .13, p = .01$ ), and, to some extent, social benefits ( $\beta = .17, p = .08$ ). However, recognition benefits are not significant.

The refined Yi and Jeon (2003) model also suggests that the value derived from participating in a loyalty program positively influences satisfaction levels. Monetary savings are by far the most important benefits for explaining customer satisfaction with the program ( $\beta = .44, p = .00$ ), followed by entertainment benefits ( $\beta = .23, p = .00$ ) and exploration benefits ( $\beta = .18, p = .02$ ). However, neither recognition benefits nor social benefits relate significantly to satisfaction with the program.

### *3.5.2 Impact of perceived benefits on PRI*

De Wulf et al. (2001) demonstrate that marketing tactics, such as special treatment, and discounts, reinforce perceptions of a firm's relationship investment (i.e. consumer's perception of the extent to which a company devotes efforts to maintaining or enhancing relationships with regular customers). More precisely, the PRI mediates the relationship between marketing tactics and relationship quality (i.e., overall assessment of the strength of a relationship, which consists of satisfaction with the firm, trust, and commitment).

Whereas De Wulf et al. (2001) apply their model to marketing investments in general, this study replicates their framework within the specific context of loyalty programs. To reward

customers for their loyalty, the firm invests money, time, and effort in developing several benefits that get delivered through the program. The five dimensions of perceived benefits should then positively influence the PRI. Findings from the present study support this proposal (Figure 2): All benefits, except social benefits, have a positive and significant impact on PRI. Recognition and monetary savings benefits are the most prominent. Furthermore, the PRI fully mediates the relationship between perceived benefits and relationship quality.

Figure 2 here.

#### **4. Implications for relational strategies**

To deepen knowledge about the effectiveness of loyalty programs, this research investigates perceived benefits and offers a scale to measure these benefits on the basis of various consumer experience (e.g., Babin and Attaway, 2000; Haley, 1968; Sheth et al., 1991; Tauber, 1972). A 16-item scale, with stable psychometric properties, captures these benefits.

From an academic point of view, this study contributes to the existing body of knowledge about relationship marketing. The study first provides a multibenefit framework that identifies the different benefits customers may perceive when participating in loyalty programs. In addition to monetary savings, members of loyalty programs experience a range of nonmonetary benefits, whether related to exploring the firm's offer, the entertainment associated with accumulating and redeeming points, or recognition and feelings of identification. The ability to measure these perceived benefits offers researchers an opportunity to study the behavioral impact of loyalty programs theoretically. Furthermore, nonmonetary benefits encompass more than special treatment and recognition benefits. Entertainment benefits may ensure satisfaction with the program and should appear in models

that investigate how customers react to loyalty programs. Finally, as an extension of the seminal research published by De Wulf et al. (2001), this study represents a step forward in understanding how perceived relationship investments, through loyalty programs, affect the relational performance of the firm (i.e., satisfaction, trust, and commitment), as well as potential purchase behaviors.

From a managerial point of view, the contributions of the proposed scale for developing relational strategies are as follows: the promotion of a diversity of benefits, differentiation through nonmonetary benefits, segmentation of customer portfolios, and program diagnoses. The subsequent paragraphs contain brief descriptions of each of these contributions.

*Promotion of a diversity of benefits.* As a key finding, this study reveals that the perceived benefits associated with loyalty programs are diverse and relate to multiple consumer motivations (utilitarian, hedonic, and symbolic). Firms should resort to both monetary and nonmonetary incentives and integrate functional as well as pleasure-providing features into their loyalty programs. They also should promote these benefits as reasons for enrolling in the program. For example, highlighting the reward structure, the ease of obtaining rewards, and the rapidity with which customers can exchange points may be relevant to promote entertainment benefits. Similarly, firms can help the most profitable customers quantify the value of the benefits they earn to prevent switching to competitors (Gwinner et al., 1998). For example, catchphrases such as *earn 5% cash back on purchases*, *save 30 minutes through priority check-in*, or *become one of the 100 VIP members who will enjoy the event* should help customers associate measurable value with the program benefits.

*Differentiation through nonmonetary benefits.* Recognition benefits have strong and important impacts on the firm's perceived relationship investment. Marketers who invest in rewards such as personalized services or value-added information probably make wise

investments. In addition, because nonmonetary benefits are intangible, they are hard for other firms to replicate. These benefits consequently can offer a useful strategy for differentiating the program in an environment in which competitors' programs are very similar.

*Segmentation of customer portfolios.* Not all customers associate the same benefits with a particular program. The scale of perceived benefits therefore can help segment customers, then identify and track those who are most likely to respond to different benefit dimensions. The scale also can direct differentiated communications, according to the benefits a particular segment value the most.

*Program diagnosis.* Managers can rely on the scale to perform a diagnosis and thereby understand potential deficiencies of their programs. First, they should compare perceived program performance with customers' expectations. Second, they can benchmark their firm against competitors and other companies operating in a range of sectors. Such a diagnosis enables the firm to improve its overall relationship effectiveness and enhance relative market performance. Managers also may use the scale to track the evolution of customer needs and understand how such needs might change as a result of various conditions and evolutions. Finally, managers may wish to use the scale to assess the strength of their customer–firm relationships (e.g., effects of the perceived benefits on important relationships outcomes, such as loyalty to the program and perceived relationship investment).

## **5. Limitations and directions for further research**

The sample features (i.e., convenience sample and online access panel) warrant caution before generalizing the results beyond the population studied and require replications. Moreover, research that takes competitors' programs into account could shed more light on regular

customers' expectations and perceptions (e.g., relative measure assessing program performance compared with that of competitors).

This study does not confirm the relevance of the convenience dimension, despite its importance in the relationship marketing field. Convenience definition relies on Berry's (1995) conceptualization: The reduction of decision-making anxiety. As a reviewer suggested, further research might extend this definition to include the ease of use of the loyalty program or whether the effort required is worth the gains. Moreover, this study focuses on the perceived benefits of loyalty programs, yet perceived value comprises benefits as well as costs. Thus, researchers should extend Kivetz and Simonson's (2002, 2003) work by identifying the perceived costs of a loyalty program, such as the complexity of the redemption system, feelings of being locked in the relationship, and so forth. Another limitation of this study relates to the high percentage of loyalty programs in the retailing sector, which prevent generalizations of the results. For example, social benefits seem to play a much less important role than do the other four dimensions, in contrast with relationship research assumptions (Libermann, 1999; McAlexander et al., 2002). This finding may reflect the specific features of the retailing industry, in which symbolic incentives are rare and people prefer tangible advantages, such as coupons. Therefore, further research must establish nomological validity across different product and service categories.

Identifying the relationship between perceived benefits and other variables of interest remains a challenge. Intentions to switch, cooperation with the firm, or word-of-mouth behaviors may further clarify the relational outcomes of the perceived benefits of loyalty programs. Additional research also might establish the antecedents and consequences of the perceived benefits of loyalty programs or investigate the relative importance of monetary versus nonmonetary benefits. The proposed scale should motivate additional research aimed

at providing helpful insights into the effectiveness of loyalty programs—one of the most widely used relationship tools among managers and widely debated tools among academics.



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Table 1: Perceived benefits of loyalty programs

Dimensions of benefits	Subdimensions of benefits	Definition
Utilitarian	<i>Monetary savings</i>	To spend less and save money
	<i>Convenience</i>	To reduce choice, and save time and effort
Hedonic	<i>Exploration</i>	To discover and try new products sold by the company
	<i>Entertainment</i>	To enjoy collecting and redeeming points
Symbolic	<i>Recognition</i>	To have a special status, to feel distinguished and treated better
	<i>Social</i>	To belong to a group that shares the same values

Table 2: Scale structure and reliability (exploratory analysis)

Items	<i>Monetary savings</i>	<i>Exploration</i>	<i>Entertainment</i>	<i>Recognition</i>	<i>Social</i>
I shop at a lower financial cost	<b>-.72</b>	.13	-.04	.01	-.07
I spend less	<b>-.90</b>	-.07	.06	-.03	.04
I save money	<b>-.89</b>	-.08	.00	.04	.04
I discover new products	-.03	<b>.84</b>	.03	-.01	.02
I discover products I wouldn't have discovered otherwise	.04	<b>.85</b>	-.01	.04	-.03
I try new products	-.04	<b>.62</b>	.05	.19	.01
Collecting points is entertaining	.04	-.05	<b>.89</b>	.02	-.01
Redeeming points is enjoyable	-.04	.04	<b>.74</b>	-.05	.01
When I redeem my points, I'm good at myself	-.01	.03	<b>.78</b>	.05	-.05
They take better care of me	-.07	.03	-.04	<b>.67</b>	.18
I'm treated better than other customers	-.04	-.02	.05	<b>.95</b>	-.11
I'm treated with more respect	.07	.13	.03	<b>.76</b>	.07
I feel I am more distinguished than other customers	.01	-.03	.02	<b>.82</b>	.04
I belong to a community of people who share the same values	-.01	.11	.04	-.07	<b>.73</b>
I feel close to the brand	-.02	-.03	.02	.10	<b>.65</b>
I feel I share the same values as the brand	.02	-.04	-.01	.04	<b>.89</b>
<i>Eigenvalues</i>	<i>2.29</i>	<i>1.53</i>	<i>1.69</i>	<i>5.33</i>	<i>1.13</i>
<i>Cronbach's alpha</i>	<i>.87</i>	<i>.84</i>	<i>.85</i>	<i>.88</i>	<i>.82</i>

Table 3: Reliability and convergent and discriminant validity of the scale (confirmatory analysis)

	Cronbach's alpha	Jöreskog rhô	Rhô vc	Monetary savings	Exploration	Entertainment	Recognition	Social
<i>Monetary savings</i>	.90	.91	.71	1				
<i>Exploration</i>	.91	.91	.63	.27	1			
<i>Entertainment</i>	.89	.89	.61	.21	.34	1		
<i>Recognition</i>	.97	.97	.64	.24	.48	.25	1	
<i>Social</i>	.96	.95	.67	.27	.60	.34	.65	1

Figure 1: Item loadings for first-order, five-dimensional scale

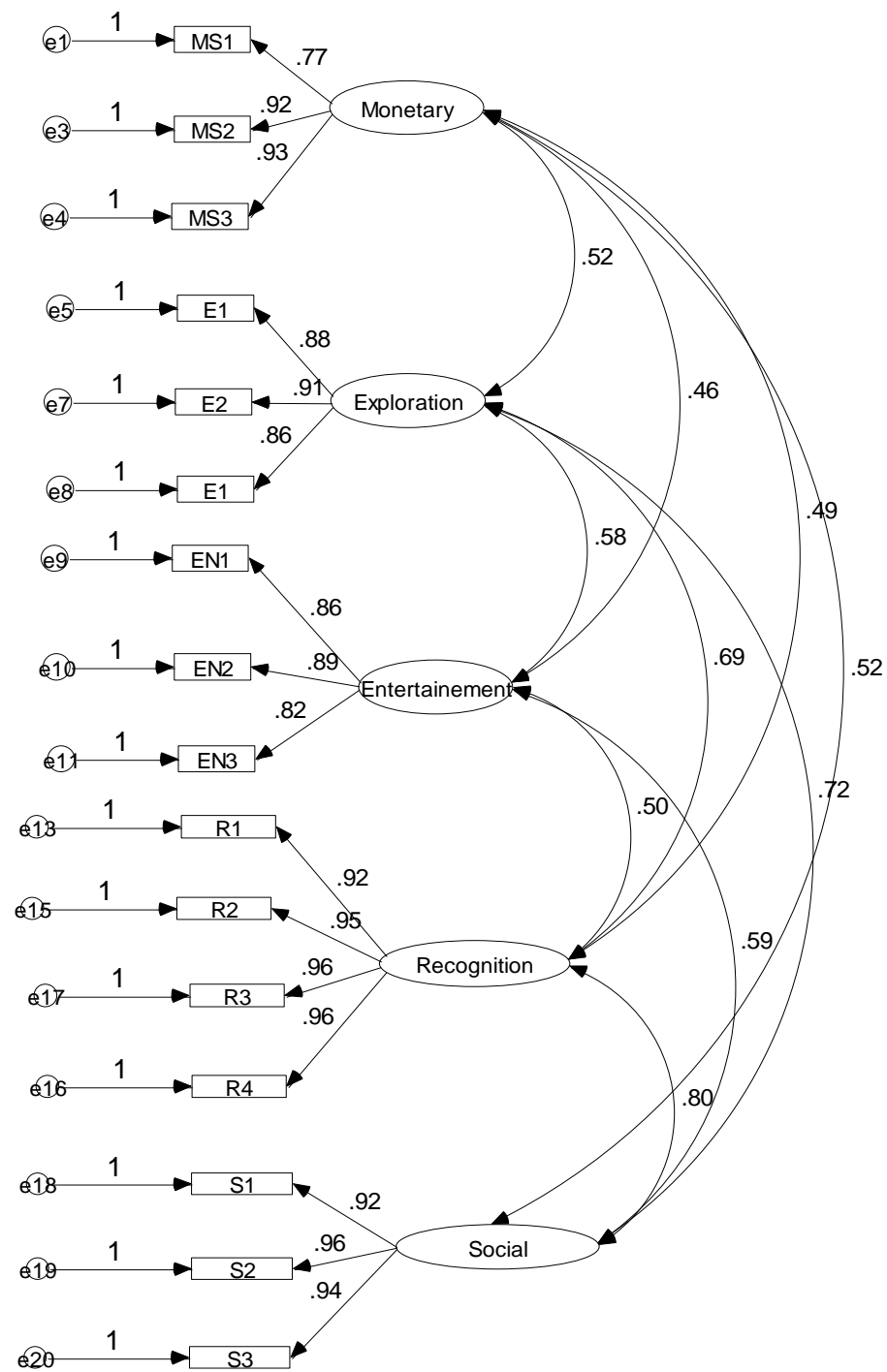
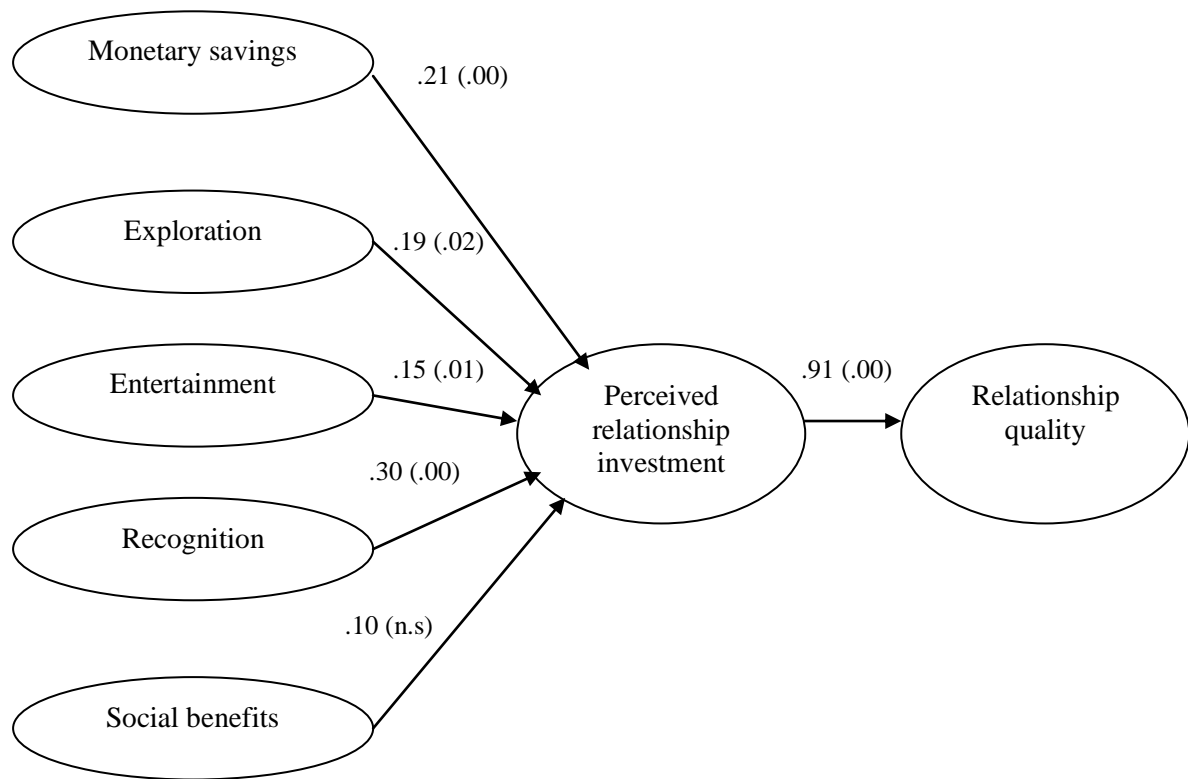




Figure 2: Test of the nomological validity of the scale using De Wulf et al.'s (2001) model



## APPENDIX

### Measure of the variables used for nomological validity test

Variable	Measurement
Satisfaction with the program	<p>I made a good choice when I decided to participate in this program</p> <p>My overall evaluation of this program is good</p> <p>The advantages I receive, being a member of this program, meet my expectations</p> <p>All in all, I'm satisfied with this program</p> <p>(Cronbach's alpha = .92)</p>
Loyalty to the program	<p>I would recommend this program to others</p> <p>I have a strong preference for this program</p> <p>I like this program more so than other programs</p> <p>(scale adapted from Yi and Jeon, 2003; Cronbach's alpha = .92)</p>
Perceived relationship investment	<p>This firm makes efforts to increase regular customers' loyalty</p> <p>This firm makes various efforts to improve its tie with regular customers</p> <p>This firm really cares about keeping regular customers</p> <p>(scale adapted from De Wulf et al., 2001; Cronbach's alpha = .90)</p>
Relationship quality	<p><i>Satisfaction</i></p> <p>As a regular customer, I have a high quality relationship with this firm</p> <p>I am happy with the efforts this firm is making towards regular customers like me</p> <p>I am satisfied with the relationship I have with this firm</p> <p><i>Trust</i></p> <p>This firm gives me feelings of trust</p> <p>I have trust in this firm</p> <p>This firm gives me a trustworthy impression</p> <p><i>Commitment</i></p> <p>I'm interested in the success of this firm</p> <p>I feel loyal towards this firm</p> <p>I keep buying from this firm because I appreciate it</p> <p>(scale adapted from De Wulf et al., 2001; Cronbach's alpha = .95)</p>

Notes: All items measured on seven-point Likert scales.